

S E C R E T

Approved For Release 2004/06/14 : CIA-RDP80M01082A000600130009-7

31 May 1974

MEMORANDUM FOR: National Intelligence Officer for Economics
SUBJECT : A Staff Survey of Economic Intelligence

1. In his memorandum to the President on 6 September 1973, the DCI specified the steps that he would take during a four-to-eighteen month period with respect to the intelligence community's objectives. Objective E states that "The provision of intelligence and its utilization must enhance the formulation of the foreign, military and economic policies of the U.S. Government and the planning for and conduct of military operations by U.S. forces." Subsumed under this objective are several tasks he set for himself with respect to economic intelligence that he was to complete this fiscal year. Subsequently, Mr. Leo Cherne in his report of December 1973 to the President on Economic Intelligence recommended that the "Board should evaluate this plan as soon as available with reference to the adequacy of its proposed approach to satisfying contemporary, priority economic intelligence requirements of the U.S. Government."

2. This spring, in preparation for your arrival, I undertook a survey of economic intelligence, which I am hereby providing you. So that the economic intelligence "plan" can be issued this summer, I have keyed the survey to the tasks cited above, and at the same time indicated, as appropriate, actions to date and proposed actions. Thus, in effect, this survey is an approach for the intelligence community to take in the course of the next year. In so doing, it addresses the problems raised by Mr. Cherne.

3. You will have a major role in implementing and modifying, as necessary, this approach. In the meanwhile, many actions have already been taken and others are underway. Because there is an NIO for Energy that topic receives only passing treatment in this paper.

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4. I owe a debt of gratitude in the preparation of this study to Dr. Maurice Ernst, Director of CIA's Office of Economic Research, and [redacted] Chief of the Intelligence Community Staff's Product Review Division. I discussed with them the complete text and benefited greatly from their advice and suggestions. I am also deeply grateful to many others who offered constructive criticism and technical advice, including Mr. William Morell, Special Assistant to the Secretary of Treasury for National Security Affairs, and [redacted] of the Intelligence Community Staff. The findings and recommendations, however, are my own and do not necessarily represent the views of the Intelligence Community Staff or any other entity of the intelligence community.

[redacted]
Product Review Division
Intelligence Community Staff

Attachment: Economic Intelligence Survey

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Economic Intelligence

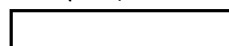
A Staff Survey

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

April 1974

MEMORANDUM FOR: Admiral George W. Anderson, Jr., USN (Ret.)
Chairman, President's Foreign Intelligence
Advisory Board

SUBJECT : Economic Intelligence Plan

1. In my memorandum to the President on 6 September 1973, I specified the steps that I would take during a four-to-eighteen month period with respect to the intelligence community's objectives. Objective E states that "The provision of intelligence and its utilization must enhance the formulation of the foreign, military and economic policies of the U.S. Government and the planning for and conduct of military operations by U.S. forces." Subsumed under this objective are several tasks I set for myself with respect to economic intelligence that I was to complete this fiscal year. Subsequently, Mr. Leo Cherne in his report of December 1973 to the President on Economic Intelligence recommended that the "Board should evaluate this plan as soon as available with reference to the adequacy of its proposed approach to satisfying contemporary, priority economic intelligence requirements of the US Government."

2. Accordingly, I am hereby providing my economic intelligence "plan", which was prepared by the Intelligence Community Staff's Economic Support Officer. In effect, it is the approach the intelligence community is taking to satisfy the problems raised by Mr. Cherne. As you know, I have appointed Dr. Robert Slighton of Rand as my National Intelligence Officer for Economics. After he is on board, in about a month, he will have a major role in implementing, and modifying as necessary, this plan. In the meanwhile, many actions have already been taken and others are under way.

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3. Earlier this month I discussed the September 6 Intelligence Community objectives with Mr. Ash. At that time I touched upon this plan, noting that I would seek any suggestions you and the other members of the Board might care to offer before making formal dissemination. I look forward to continuing this dialogue with the Board so that together we may achieve an intelligence effort that increasingly supports the diverse US foreign economic interests.

W. E. Colby

Attachment
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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

ECONOMIC INTELLIGENCE PLAN

APRIL 1974

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SUMMARY

An Overview of Economic Intelligence (Section I, p.1)

Definition. -- "Economic Intelligence" is difficult to define. It is an abstract term that, depending on circumstances, includes negotiating strategies, short- and long-term outlooks, descriptive and speculative information, plant and investment data, commercial information, and a broad spectrum of research analyses. Its information base encompasses the political, military, technological, as well as the commonly accepted economic. Its product is used by policymakers, by negotiators, by staff planners, and by analysts of all hues.

Often economic intelligence is said to encompass all economic, financial, and commercial information on foreign economies. Unfortunately, this neat and simple characterization inadequately indicates the means by which economic intelligence is integrated with the policy-making and implementation processes. Accordingly, for this purpose, it is probably more useful to define the subject in terms of the research end-product. This, in turn, is defined as comprising those studies, analyses, evaluations, estimates, forecasts, and interpretations that are prepared by the intelligence community in support of the formulation and execution of US foreign economic policy. And among others it covers the general subjects of foreign trade, international investments and technology transfers, the world monetary system, access to fuels and other raw materials, and traditional national security topics such as military expenditures.

Placed in Perspective. -- Not only is economic intelligence probably harder to define, more fluid, and the need for it less predictable than are other types of intelligence. But as international economic affairs have become increasingly important to US policymakers, the demands on intelligence for the collection, analysis, and evaluation of economic information have broadened greatly. Traditionally, economic intelligence was largely concerned with the economic basis for military threats to the United States -- in Krushchev's words, "the means of burying" us. Now economic intelligence can be said to encompass all foreign economic plans, policies, and developments having a substantial, present or potential effect on US national interests.

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In the main, the collection systems that support this effort have been established to meet other objectives. The information base is dependent on a gamut of technical, clandestine, and overt inputs, [redacted]

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25X1 [redacted] and from Foreign Service reports to the open literature. (The Treasury attaches in 12 posts and the Agriculture attaches in some 60 posts abroad are the principal collectors serving Washington economic consumers on a dedicated basis.) It is appropriate that the collection efforts be multipurpose. Within the intelligence community, economic intelligence is often a joint product with other intelligence.

Joint Efforts, Costs, and Products. -- The December 1973 PBIAB Report on Economic Intelligence notes a number of "economic" events in the past two years to substantiate the Board's urgent call for more effective "economic intelligence." In particular, it cites several international currency crises, the substantial US dependence on foreign sources of supply for petroleum and other vital resources, the US sale of grain to the Soviet Union, and US technology transfers to the Soviet Union. By this juncture it should be apparent that international economic policy is ever increasingly interrelated with the national security. Likewise, it should be equally evident that export controls on US agricultural commodities and an embargo on exports of crude to the United States from the Persian Gulf area involve more than US economic relations with Japan and Saudi Arabia, respectively. Indeed, though the Arab oil embargo had a wrenching economic effect on the United States, it was in reality, a political weapon in the hands of those who wielded it. Consequently, as the intelligence community supports those who attempt to cope with national policy concerns, it is dealing with what can be termed "hyphenated"-economic intelligence: military-economic (arms sales), scientific-economic (transfer of technology), political-economic (most Cabinet-level policy decisions), and socio-economic (growing population pressures on raw material resources).

In making determinations of appropriate resource levels, program managers will have to translate the foregoing statement re hyphenated-economic intelligence into organizational directives. This requires the recognition that they be responsive to the requirements for intelligence under the rubric of economic policy and motivation: internal and foreign economic policies, programs, and negotiating positions; motivations and developing positions of individuals.

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interest groups, and separate governmental bureaucracies; and, economic policy intentions, attitudes, strategies, and proposed actions of key governmental and other decision-makers -- all as they relate to matters affecting US economic interests.

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In May 1973 the DCI, in discussing the US economic effort, said about [] per cent of the analytical (product) resources and about [] per cent of the collection resources of the intelligence community were devoted to economic intelligence. He stated he did not have much confidence in these figures because they were based on CIRIS (Consolidated Intelligence Resources Information System) data for resources devoted solely to economic intelligence. Nonetheless, CIRIS has again been tapped to identify the costs related to economic intelligence. But this time we realize the relevance of joint efforts, costs, and products.

The National Intelligence Program (NIP) consists of three major programs, those of the CIA, the State Department's Bureau of Intelligence and Research, and the Consolidated Defense Intelligence Program.

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[] The NIP does not include the Foreign Service of the United States, which yields us the greatest amount of useful information, and often at the lowest cost to the US Government. No matter, we can and will factor in the appropriate data.

For FY 1974, combining the NIP and the Foreign Service, those costs directly targeted against economic subjects are [] per cent of collection (the Foreign Service being allocated entirely to collection); [] per cent of processing; and [] per cent of production (including nearly [] million that NSA identifies as economic reports and analyses). All told, economic intelligence as a percentage of the NIP plus Foreign Service is [] per cent. Yet, these figures are manifestly incomplete: Much of the relevant data reported to CIRIS is omitted, because program managers lump economic intelligence together with political and/or military intelligence; conceptually they are being eminently sensible.

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Those additional costs targeted against "basket" categories containing economic subjects account for [] per cent of collection, [] per cent of processing, and [] per cent of production. These categories as a percentage of the NIP plus Foreign Service are [] per cent. (The exclusion of support and counterintelligence activities raises the percentage to [].) These two sets of cost percentages are additive. Thus, one can state that [] per cent of the resources of the NIP plus Foreign Service is devoted either to economic subjects or to those categories that include economics. This is probably a more meaningful depiction than arbitrarily apportioning subjects that often cannot be separated. With this realization, the issue of resource levels takes on new meaning. Eventually, new organizational relationships -- lending themselves to more profitable interdisciplinary endeavors -- may well follow.

Recent Initiatives. -- During FY 1973, the EIC successfully carried out the principal recommendations it was assigned by USIB in June 1972. At all times the goal was, and continues to be, the provision of the most timely, relevant, and complete economic-intelligence support to the policy-level officials in all economic departments and agencies of the government. In addition to these steps, important measures have been undertaken by the DCI, his Intelligence Community Staff (ICS), Treasury, and components of the intelligence community concerned with economic intelligence. These are discussed in the main text.

The Purpose of This Exercise. -- The DCI, in a memorandum to the President on 6 September 1973, enumerated the specific steps he would take over an eighteen-month period "to increase substantially the efficiency and effectiveness of the intelligence community." Objective B requires that specific steps be taken to enhance the formulation of the economic policies of the US Government.

This plan, then, is responsive to that commitment. In addition, it should answer most of the unresolved recommendations of the PFIAB's December 1971 report. Moreover, this program is responsive to the Board's follow-up Report on Economic Intelligence prepared by Mr. Leo Cherne on 7 December 1973.

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Principal Elements of PlanA. Identify Users' Current Needs for Economic Intelligence
(Section II, p. 8)

Maintain informal producer-consumer contacts, which are utilitarian in an unstructured policy environment...

...and Supplement this network with formal links to policymakers to gain more timely guidance and better feedback.

- Seek observer status for DCI's representative on Volcker Group, or its successor.
- Explore utility of ad hoc representation by economic intelligence community on National Advisory Council on International Financial and Monetary Policy (NAC).

Employ OER's monthly Calendar of Economic Events as focal point of interdisciplinary meetings of NIO/Economics and analysts throughout intelligence community.

Identify NIO/Economics' range of responsibilities, including his role in the maintenance and establishment of customer relations and consultant assistance, and in definition of objectives.

Organize an effective estimate process. NIO/Economics will make use of OER, the rest of the Washington economic community, and outside consultants.

Use NSCIC...

- Add representative of Washington economic community. Action completed: Under Secretary of Treasury Volcker has been appointed.
- Revise KIQs: of current set of ☐ are economic and ☐ of these are undergoing KIQ Evaluation Process (KEP);

FY 75 set will be drafted by NIO/Economics and approved by NSCIC;

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Requirements Advisory Board will work with NSCIC Working Group, as appropriate, to provide continuous evaluation and regeneration of the economic KIQs.

...and its Special Working Group, the Rejuvenated Requirements Advisory Board (RAB).

- Established by Secretary Shultz in February 1973, RAB noted two problems receiving inadequate collection coverage. These have been incorporated into formulation of first set of KIQs.
- No longer limit RAB's purview to covert intelligence matters; Foreign Service reporting, in particular, will be scrutinized.

Utilize USIB's Economic Intelligence Committee, which performs a singular role.

- Make appropriate input into revision of DCID 1/2 (US Foreign Intelligence Priorities) in 2nd half of CY 74. (Current version, issued in March 1974, has topic/country scores of "2", of critical importance to US, vis-à-vis none in preceding directive.)
- Provide continuing guidance to the Foreign Service via the Executive Branch's Combined Economic Reporting Program (CERP) by means of Economic Alert Lists, which are being improved (mainly by the use of eight substantive review panels composed of specialists from CIA, State, Commerce, and Treasury), and the annual "Coordinated Statement of Priorities on Economic, Financial and Commercial Intelligence Requirements Worldwide of the Washington Economic Community."
- Evaluate responses from the field to overt collection guidance transmitted via CERP.
- Participate more directly in guidance to intelligence community collectors, working closely with the principal committees engaged in requirements work, especially the SIGINT Committee.

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- Strengthen its secretariat to accomplish these tasks -- the ICS Economic Support Officer will be designated Executive Secretary.
- Work, through its chairman, with the NIO/ Economics and RAB to define their respective roles so that they are mutually supporting.

B. Determine Intelligence Community's Contribution.
(Section III, p.23)

Assess limitations of covert activities directed against economic targets, particularly in the Free World.

Intercede at a high level, as required, to raise the priority for economic reporting from selected Foreign Service posts. Reporting by Treasury attaches will be reviewed.

Employ KEP, if successful, for an ever-widening range of issues.

Identify annually the possible resource impact on the upcoming 5-year consolidated cryptologic program of stated users' needs for economic intelligence support.

Include in the Annual Report of the CIA relevant objectives for each of the directorates; DDO will continue to produce reports of value on the plans, policies, and internal stability of Free World and Third World countries.

Complete OER's evaluation of the applications of overhead photography, especially with respect to crops. (Note: In recent months 5 to 10 per cent of the total effort of the photographic systems has been devoted to economic-related subjects.)

Conclude joint DDO/OER Study of Clandestine Collection of Economic Intelligence, which will assist DCI and DDO in allocating clandestine collection resources for economic intelligence over the next several years.

Determine if NSA can make a greater contribution in this field.

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- C. Determine Appropriate Resource Levels and Assign Collection and Production Responsibilities. (Section IV, p.31)

Employ Intelligence Resources Advisory Committee to fulfill this all-encompassing task.

- Devise "cross-program resource packages, #

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- Examine NIP resources allocated to political-economic intelligence collection (including the Foreign Service) in FY 76.
- Issue and refine successive iterations of substantive objectives so that second portion of this over-all task can be achieved in fiscal years 77, 78, and 79.

Validate continuously, through USIB, the collection and production requirements, which are then assumed by the community program managers as responsibilities.

Strive to minimize duplicating efforts by analytical components of the community of others, both in and out of the government.

- Key EIC's offer to conduct annual sessions at which Agency Action Officers will discuss their research programs to the Periodic Inventory of U.S. Government Studies that is prepared by INR for the Council on International Economic Policy.
- Provide guidance by NIO/Economics and the Intelligence Community Staff's Coordinator for External Research to contract managers so that the resultant work will meet the needs of a wider government audience. At

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the same time, alert the analytical community,
via the EIC, to the external research activities
under way that might be of use to them.

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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

ECONOMIC INTELLIGENCE PLAN

April 1974

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SECTION I. INTRODUCTIONBackground

On 5 November 1971 the President directed a number of steps be taken to improve the efficiency and effectiveness of the US foreign intelligence community. Concomitantly, he undertook a reorganization of the intelligence community, including the addition of a representative of the Secretary of the Treasury as a member of the reconstituted United States Intelligence Board. In a highly classified, accompanying letter to a number of senior national officials, he spelt out his rationale for promulgating these measures. This included the attainment of "an improved intelligence product," entailing an improvement in its quality, scope, and timeliness. Moreover, the intelligence community was to take into account the greater significance of "financial, commercial, and economic factors."

Then, on 15 December 1971, the President's Foreign Intelligence Advisory Board (PFIAB), in a closely-held report to the President, stated, "It is essential that the intelligence community be reoriented to support these new national economic considerations." Since then, the realization that economic intelligence is an essential element of the US national security posture has been increasingly, if not universally, recognized. A number of steps have been taken in the ensuing two plus years to support this goal but more remains to be done.

The DCI, not long after he was sworn in, in a memorandum to the President on 6 September 1973, enumerated the specific steps he would take over an eighteen-month period "to increase substantially the efficiency and effectiveness of the intelligence community." Objective E requires that specific steps be taken to enhance the formulation of the economic policies of the US Government:

- identify during the second quarter of FY 1974 the current needs of the users of foreign economic intelligence;
- determine, in coordination with other Federal agencies, what contribution the intelligence community can make in this area;

- determine appropriate resource levels and, through USIB, assign responsibilities for collection and production in this area;
- provide for implementation of this program by the end of the third quarter of FY 1974.

The DCI's program, or "plan," should answer most of the unresolved recommendations of the PFIAB's December 1971 report. Moreover, this program is responsive to the Board's follow-up Report on Economic Intelligence prepared by Mr. Leo Cherne on 7 December 1973. The latter report concluded with a pertinent recommendation: "The Board should evaluate this plan as soon as available with reference to the adequacy of its proposed approach to satisfying the contemporary, priority economic intelligence requirements of the U.S. Government."

Economic Intelligence Defined...

"Economic Intelligence" is difficult to define. It is an abstract term that, depending on circumstances, includes negotiating strategies, short- and long-term outlooks, descriptive and speculative information, plant and investment data, commercial information, and a broad spectrum of research analyses. Its information base encompasses the political, military, technological, as well as the commonly accepted economic. Its product is used by policymakers, by negotiators, by staff planners, and by analysts of all hues.

Often economic intelligence is said to encompass all economic, financial, and commercial information on foreign economies. Unfortunately, this neat and simple characterization inadequately indicates the means by which economic intelligence is integrated with the policy-making and implementation processes. Accordingly, for this purpose, it is probably more useful to define the subject in terms of the research end-product. This, in turn, is defined as comprising those studies, analyses, evaluations, estimates, forecasts, and interpretations that are prepared by the intelligence community in support of the formulation and execution of US foreign economic policy. And among others it covers the general subjects of foreign trade, international investments and technology transfers, the world monetary system, access to fuels and other raw materials, and traditional national security topics such as military expenditures.



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...and Placed in Perspective

Not only is economic intelligence probably harder to define, more fluid, and the need for it less predictable than are other types of intelligence. But as international economic affairs have become increasingly important to US policymakers the demands on intelligence for the collection, analysis, and evaluation of economic information have broadened greatly. Traditionally, economic intelligence was largely concerned with the economic basis for military threats to the United States--in Khrushchev's words, "the means of burying" us. Now economic intelligence can be said to encompass all foreign economic plans, policies, and developments having a substantial, present or potential effect on US national interests.

Although this concept can include almost any kind of foreign economic information, it is far from universal. For ultimately economic information, research, and analysis becomes economic intelligence only if it is currently or potentially necessary to the formulation or execution of US national policy. Usually excluded are the routine collection and collation of economic data from the open media and research in support of private US interests. More and more the function of economic intelligence is being recognized as one that provides key ingredients of the policy support package, such as:

- collection of economic information not available from popular sources;
- analysis specifically related to US policy concerns.

Some of the requirements for economic intelligence support are reasonably stable--for example, economic research on denied areas. But others are constantly changing as a result of changing world market conditions and policy concerns.

In the main, the collection systems that support this effort have been established to meet other objectives. The information base is dependent on a gamut of technical, clandestine, and overt inputs

and from Foreign Service reports to the open literature. (The Treasury attachés in 12 posts and the Agriculture attachés in some 60 posts abroad are the principal collectors serving Washington economic consumers on a dedicated basis.) It is appropriate that the collection efforts be multipurpose. Within the intelligence community, economic intelligence is often a joint product with other intelligence.

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The Indivisibility of Intelligence: Joint Efforts/Joint Costs/Joint Products

The second PFIAB Report on Economic Intelligence, December 1973, notes a number of "economic" events in the past two years to substantiate the Board's urgent call for more effective "economic intelligence." In particular, it cites several international currency crises, the substantial US dependence on foreign sources of supply for petroleum and other vital resources, the US sale of grain to the Soviet Union, and US technology transfers to the Soviet Union. By this juncture it should be apparent that international economic policy is ever increasingly interrelated with the national security. Likewise, it should be equally evident that export controls on US agricultural commodities and an embargo on exports of crude to the United States from the Persian Gulf area involve more than US economic relations with Japan and Saudi Arabia, respectively. Indeed, though the Arab oil embargo had a wrenching economic effect on the United States, it was in reality, a political weapon in the hands of those who wielded it. Consequently, as the intelligence community supports those who attempt to cope with national policy concerns, it is dealing with what can be termed "hyphenated"-economic intelligence: military-economic (arms sales), scientific-economic (transfer of technology), political-economic (most Cabinet-level policy decisions), and socio-economic (growing population pressures on raw material resources).

As noted, this plan treats the question of appropriate resource levels. In making their determinations, program managers will have to translate the foregoing statement re hyphenated-economic intelligence into organizational directives. A USIB agency or department may not necessarily need x more slots to meet the growing needs placed on it by the Washington economic community. Instead, it probably requires the recognition that y slots be responsive to the requirements for intelligence under the rubric of economic policy and motivation: internal and foreign economic policies, programs, and negotiating positions; motivations and developing positions of individuals, interest groups, and separate governmental bureaucracies; and, economic policy intentions, attitudes, strategies, and proposed actions of key governmental and other decision-makers--all as they relate to matters affecting US economic interests.

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In a letter of 16 May 1973 to Admiral Anderson, Chairman of PFIAB, the DCI, James Schlesinger, in discussing the US economic effort, said about [] per cent of the analytical (product) resources and about [] per cent of the collection resources of the intelligence community were devoted to economic intelligence. He stated he did not have much confidence in these figures because they were based on CIRIS (Consolidated Intelligence Resources Information System) data for resources devoted solely to economic intelligence. Nonetheless, CIRIS has again been tapped to identify the costs related to economic intelligence. But this time we realize the relevance of joint efforts, costs, and products.

The National Intelligence Program (NIP) consists of three major programs, those of the CIA, the State Department's Bureau of Intelligence and Research, and the Consolidated Defense Intelligence Program. The last concerns NSA, DIA, the Service intelligence organizations []

[] The NIP does not include the Foreign Service of the United States, which yields us the greatest amount of useful information, and often at the lowest cost to the US Government. No matter, we can and will factor in the appropriate data.

For FY 1974, derived from "CIRIS 1973" and combining the NIP and the Foreign Service, those costs directly targeted against economic subjects are [] per cent of collection (the Foreign Service being allocated entirely to collection); [] per cent of processing; and [] per cent of production (including nearly [] million that NSA identifies as economic reports and analyses). All told, economic intelligence as a percentage of the NIP plus Foreign Service is [] per cent.* Yet, these figures are manifestly incomplete: Much of the relevant data reported to CIRIS is omitted, because program managers lump economic intelligence together with political and/or military intelligence; conceptually they are being eminently sensible.

* The NIP includes [] million for support and counterintelligence activities. When this sum is deducted, economic intelligence is [] per cent of the total collection, processing, and production functions.

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Those additional costs targeted against "basket" categories containing economic subjects account for [] per cent of collection, [] per cent of processing, and [] per cent of production. These categories as a percentage of the NIP plus Foreign Service are [] per cent.* These two sets of cost percentages are additive. Thus, one can state that [] per cent of the resources of the NIP plus Foreign Service is devoted either to economic subjects or to those categories that include economics. This is probably a more meaningful depiction than arbitrarily apportioning subjects that often cannot be separated. With this realization, the issue of resource levels takes on new meaning. Eventually, new organizational relationships--lending themselves to more profitable interdisciplinary endeavors--may well follow.

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New Directions Since 1971

In December 1971 the OMB Director, George Shultz, asked the DCI, Richard Helms, if US officers at diplomatic posts abroad were receiving adequate guidance from Washington so that their economic reporting would meet the needs of high-level policymakers. On the recommendation of the CIA Deputy Director for Intelligence (DDI), the USIB Economic Intelligence Committee (EIC) was charged with responding to the OMB inquiry. This meant that a relatively inactive USIB committee, which had always limited its focus to the communist world, would now examine issues whose major relevance was West-to-West relationships. The EIC traditionally had sought membership from the non-USIB agencies and so it was fairly easy for the Chairman--who was also the new Director of the CIA/DDI Office of Economic Research (D/OER)--to call them into session, but with changed representation to reflect the new focus.

In June 1972, USIB approved the report, which had been drafted by a working group composed of representatives from CIA, State, Treasury, Commerce, and the Council on International Economic Policy (CIEP). They had started their labor with a mutually-agreed premise:

Events of 1971 "demonstrated the crucial role that international economic, financial, and commercial considerations play in the formulation and execution of US policy..." So policy-level officials in all economic departments and agencies of the government need to be provided with the most timely, relevant, and complete economic-intelligence support.

* As in the previous note, the exclusion of support and counterintelligence activities raises the percentage []

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Thereupon, the EIC established a Subcommittee on Requirements and Coordination, whose purpose is to make economic intelligence requirements more closely reflect the interests and needs of all departments and agencies of the Executive Branch and to achieve greater responsiveness to these requirements. As a result, during FY 1973 the principal recommendations it was tasked to carry out were satisfied. (These are fully described in Section II.) Each EIC representative of the non-USIB agencies can now receive the classified information he requires to carry out his responsibilities. Where necessary, additional clearances have been granted. The physical facilities of each non-USIB agency have satisfactorily passed security muster. Thus, sensitive intelligence information cables and reports published by CIA's Directorate of Operations (DDO), as well as NSA's [REDACTED] [REDACTED] Summaries, are now disseminated to the top policy-makers of the Washington economic community.

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In addition to the EIC initiatives, important measures have been undertaken by the DCI, his Intelligence Community Staff (ICS), Treasury, and components of the intelligence community concerned with economic intelligence. These are discussed in the following two sections.

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SECTION II. THE IDENTIFICATION OF USERS' CURRENT
NEEDS FOR ECONOMIC INTELLIGENCE

The Economic Intelligence Contribution Today...

The Federal government structure for expressing and responding to needs for economic intelligence is neither coherent nor well-organized. A multiplicity of departments and agencies participate in the formulation and execution of US foreign economic policy. To a large degree, this fragmented market determines the intelligence community's unstructured service: economic reports and analyses flow from the intelligence community to consumers at all levels via a host of channels. NSA, State, CIA, and to a lesser extent Treasury and DIA distribute field reports directly to many of the same officials who subsequently receive "finished" intelligence analyses, often based, at least partially, on those same field reports.

At the national level the principal councils eliciting intelligence support are the National Security Council (NSC) and the Council on International Economic Policy (CIEP), the latter falling under the Council on Economic Policy (CEP). Yet, central control and direction of economic policy are often not evident, with the result that the intelligence community's inputs are often ad hoc. Additionally, the action is sometimes in other arenas, such as the Volcker Group -- chaired by Treasury's Under Secretary for Monetary Affairs -- for monetary policy, and a steering group chaired by the President's Special Representative for Trade Negotiations (STR) for preparation for trade negotiations. A further complication is that the intelligence community is at times either excluded from, or only partially aware of, the decision-making processes in these bodies on current issues. Indeed, some economic policymakers are consumers of intelligence information and analyses only reluctantly, if at all.

As for the working levels in the departments and agencies, they too have mixed emotions about the relevance or usefulness of "objective" economic intelligence. The major entities engage in their own research, as defined above. Not unexpectedly, bureaucratic loyalties and rivalries lead to less than full exchange of information and analyses from non-USIB to USIB agencies and among the former. For example, observations of Treasury attachés often are given either very limited or no distribution outside of Treasury. Still, most of the agencies and groups involved with economic intelligence recognize that they have information needs in common, although for different analytical purposes.

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The White House family of EIC participants, especially CIEP, STR, and the Council of Economic Advisers (CEA), have little or no research capability. They are wary lest bureaucratic biases creep into departmental analyses. Therefore, they more readily turn to the intelligence community, in general, and the CIA's Office of Economic Research, in particular, for analytic support.

Of course, the great bulk of the basic information base is available from reports originating in US posts abroad and from open source materials. All members of the Washington economic community, USIB and non-USIB alike, rely heavily on field reporting and analysis based on personal contacts in official and private circles. National Intelligence Estimates (approved by USIB and issued by the DCI) and study memoranda (NSSMs and CIEPSMs prepared under the direction of NSC and CIEP) are the products of interagency efforts and often contain an economic intelligence input. In most instances, however, contributions to international economic policy issues take the form of memoranda prepared in Washington in response to specific requests.

Over the years, CIA's OER, which has the major portion of the intelligence community's analytical resources and which accounts for the bulk of the output in economic intelligence production, has disseminated its finished intelligence memoranda, on the one hand, to specific high-level consumers as so-called S-projects and, on the other hand, to a wider audience as Intelligence Memoranda and Reports. In 1973 this Office introduced the Intelligence Brief, in reality an upgraded S-project, and two weekly publications that receive broad dissemination in Washington and selected dissemination overseas: The Economic Intelligence Weekly and International Oil Developments. All told, about 70 per cent of OER's finished intelligence production responds to specific requests, and much of the remainder bears directly on policymakers' obvious needs. Indeed, the International Oil Developments was instituted in response to a specific NSC request that arose from CIA attendance at an inter-agency NSSM meeting. For the most part, then, the analytical requirements system has developed informally through direct contacts between producer and consumer. In an unstructured policy environment, an informal network is the most utilitarian: a highly structured requirements system would have little chance of success.

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25X1 What has been said for OER applies in the main for the other analytical entities of the intelligence community. State/INR has only about one-fifth of OER's economic resources. CIA's Office of Strategic Research and DIA concentrate exclusively on the military-economic area (transportation and military expenditures). Treasury's Office of the Assistant Secretary for International Affairs (OASIA) has a small research staff, performing basic analyses of balances of payments and other economic topics but making very little in the way of interpretation of use to policymakers. While its National Security Affairs staff (ONS) has no research capability at all, it currently acts as an intermediary between other elements of the intelligence community and the CEP member agencies.

25X1 Lastly, a word about current economic intelligence. In January 1974 the DCI instituted on a trial basis the National Intelligence Daily (NID). Less than [] copies are disseminated to the most senior policymakers of our government every day but Sundays and holidays. Economic consumers include the Secretary and Deputy Secretary of Treasury, the Director of OMB, the Executive Directors of the Councils on Economic Policy and International Economic Policy, and a senior staff member of the National Security Council. In most instances, the material related to economic issues is carried in the Central Intelligence Bulletin as well, which reaches a national audience six times each week. NSA disseminates its [] Summary five times weekly to a relatively wide readership for a sensitive document, and six times a week distributes its [] Summary to a rather specialized group of consumers on a restricted basis; more and more the latter is including items of economic interest. State's Bureau of Intelligence and Research (INR) devotes its current support to in-house consumers in the form of Intelligence Notes and Intelligence Briefs, only a small number of which are prepared by its Office of Economic Research and Analysis. In addition, as indicated earlier, CIA's DDO issues Intelligence Information Cables [] 25X1 [] disseminating them, à la State's traffic, to a growing number of senior policy officials in the Washington economic community.

25X1 A rehearsal of the variegated means the intelligence community employs in an attempt to target its production to the needs of the policymakers--and it is a moving target--does not complete the loop. Mr. Cherne, in the December 1975 PFIAB report, notes, "... one of my most disturbing observations

is the near-total absence of the evaluative feedback from the user to the producer." Steps have been and are being taken to respond to this criticism. High-level guidance is useful, and evaluative feedback sorely missed. But, on a day-to-day basis, continuing, largely informal, direct customer contacts will remain the practicable mode of conducting business.

...and Tomorrow

As will be outlined below, this plan proposes the adaptation of two interconnecting mechanisms to relate the economic policymakers and the intelligence community: The National Security Council Intelligence Committee (NSCIC), including both its Working Group and a reoriented Requirements Advisory Board (RAB). High-level representation will be provided as applicable by the key economic policy entities of our government--Council on International Economic Policy, Council of Economic Advisers, and the departments of State, Treasury, Commerce, and Agriculture, as well as by those concerned with trade and financial flows, and the continuing "energy challenge." Agriculture, for example, would be invited to join in any of the deliberations on shipments of feedgrains to the Soviet Union. And CIEP would participate in any NSCIC discussion of the Key Intelligence Questions to assure that worldwide interrelationships, both regional and functional, are considered.

The largely informal network of producer-consumer contacts will be supplemented by formal links with policymakers in order to gain more timely guidance and better feedback. In particular, the CIA, represented either by the D/OER or the new National Intelligence Officer (NIO) for Economics, should gain observer status on the Volcker Group, or its successor. (So long as the United States engages in international monetary negotiations, it is likely that it will require such a high-ranking body to determine policy on international monetary issues.) As a prelude to policy-making, it engages in evaluations; for instance, an examination of various proposals for monetary reform. The intelligence community can make a useful input here by providing insights into the thinking of similar groups in other countries as well as estimates of likely reactions to our proposals once they are surfaced.

The National Advisory Council on International Financial and Monetary Policy (NAC) is chaired by the Secretary of the Treasury and includes the Secretaries of State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System (FRB), and the President of the Export-Import Bank. It was established in 1945 by the Bretton Woods Agreement

Act to coordinate the policies and operations of the US representatives on international financing institutions such as the IMF, and to review the transactions of the Export-Import Bank, among other functions. For the most part, the work of the NAC and its subordinate structure is of an operational nature. It does, however, from time to time engage in analytical work. Moreover, it submits an annual report to the President and to the Congress, whose main purpose is to discuss in some depth specific international monetary and financial policy issues. The NIO/Economics and the Treasury's Special Assistant to the Secretary for National Security Affairs should explore with the Director of the NAC Secretariat the utility of ad hoc representation by the economic intelligence community. To date, the FRB and the Export-Import Bank have only very loose ties with the intelligence producers, a situation that contrasts unfavorably with their counterpart institutions in Britain.

With the cooperation of State and Treasury/ONS, OER is now producing monthly a chronology of upcoming action-forcing events in the economic area that may require intelligence support. At the same time, this Office is increasing its interdisciplinary meetings with analysts of other components of the CIA, e.g., Office of Scientific Intelligence. In the coming fiscal year, in concert with the NIO/Economics, this Calendar of Economic Events can be utilized to broaden such meetings to include their counterparts in other intelligence organizations.

The NIO/Economics will only in time be able to identify the range of his responsibilities. Of course, he will be the DCI's principal staff officer in the economic field, operating through command channels to stimulate collaboration of all elements of the intelligence community on substantive problems. He will also participate in the maintenance and establishment of customer relations and consultant assistance, and in the definition of objectives. And working in concert with the Intelligence Community Staff, he will assist in the evaluation of performance and so make an impact on resource allocation and management decisions.

A major contribution of the NIO/Economics will be to organize an effective estimate process, making use of OER, the rest of the Washington economic community, and outside consultants. Such an approach entails at least two requirements: (1) NIEs have to be linked more closely to current NSSM/CIEPSM planning procedures, and (2) selected non-USIB economic agencies have to participate in the drafting sessions, chaired by the NIO/Economics, and in the USIB discussions in their area of interest. These agencies include -- depending on the NIE topic -- Commerce, Agriculture, FRB, Tariff Commission, and others.

Apart from diminishing opposition to intelligence support, this cooperative and comprehensive approach should guarantee that economic factors are given appropriate consideration in primarily political and military estimates and vice versa. The number of purely economic estimates handled in this manner, however, would be considerably smaller than the number of political and military estimates reviewed by USIB. Thus, our leit-motif is the achievement of a widening circle of non-USIB agencies in the economic intelligence process. This will be, on the one hand, our best assurance that the economic intelligence output will continually be redirected toward the changing needs of the user agencies, and, on the other hand, will enable the intelligence community to husband its scarce resources by obtaining informational, and on occasion analytical, contributions from those best able to provide them.

National Security Council Intelligence Committee

Among the improvements in the intelligence community directed by the President on 5 November 1971 was the establishment of a National Security Council Intelligence Committee (NSCIC). According to the White House press release, "The Committee will give direction and guidance on national intelligence needs and provide for a continuing evaluation of intelligence products from the viewpoint of the intelligence user." In the intervening period, membership and participation in NSCIC and its Working Group have changed. Of interest here, Paul Volcker, the Under Secretary of Treasury for Monetary Affairs, has recently been added to the former as the first de facto representative of the Washington economic community. And this is important since NSCIC is to play a central role in the derivation of Key Intelligence Questions (KIQs), and in the performance measurement -- KIQ Evaluation Process -- which then follows.

KIQs

Action to Date. -- On 4 January 1974 the DCI issued his first compilation of Key Intelligence Questions -- those for FY 1974 -- as guidance to the intelligence community for the collection and production of intelligence on subjects of major importance to national-level intelligence consumers. This was the culmination of a process that had been under way for seven months, during which time the membership of USIB and NSCIC, and the NSC staff, were polled by the DCI's Intelligence Community Staff. In addition, the Special Assistant to the Secretary of the Treasury for National Security Affairs, Treasury's USIB representative, made a useful input on the basis of his discussions with the CEP membership.

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This first set of KIQs contains [] questions that are directly related to specific upcoming policy-decision requirements. They do not represent an across-the-board review of everything of importance to the intelligence community and to the users of intelligence. Of the [] are identified as economic. These deal with the oil problem; Soviet economic capabilities and vulnerabilities; crop prospects, demand, and stockpiling; potential shortages of natural resources; and international economic policies of major US competitors. Furthermore, several other KIQs contain hyphenated-economic-intelligence tasking: in particular, those relating to Soviet political dynamics, the US role in Europe, stability in Southeast Asia, changing Japanese perceptions, Latin American political and economic relations with the United States, and the Law of the Sea. The intelligence community is now well aware that providing economic intelligence has become a high priority effort.

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Proposed Action. -- The KIQs for community use in FY 1975 will be drafted by the DCI's National Intelligence Officers and approved by NSCIC. With respect to economics, the NIOs for Economics and Energy will incorporate the senior-level guidance of the Requirements Advisory Board (see below), which will function under NSCIC auspices.

KEP

Action to Date. -- As has been indicated, a principal raison d'être for the KIQs is that they provide a means for conducting a post audit of the performance of the intelligence community and of its individual agencies. To enable senior management to accomplish such an evaluation, the Intelligence Community Staff, in February 1974, implemented the Key Intelligence Questions Evaluation Process (KEP). Because the first performance period is truncated and because KEP itself is subject to modification to make it more effective in the future, only [] KIQs have been selected for the full process. Among these are two concerning the oil problem: (a) the NIO/Energy is tasked with KIQ [] -- Evidence of near-term changes in policies, negotiating positions, and vulnerabilities of the major foreign petroleum producers with respect to the output, export, and price of oil; and (b) the NIO/Economics is charged with KIQ [] -- The composition and location of monetary reserves of the major oil-producing countries, and movements from one currency to another, particularly with respect to dollars. The NIO/Energy has completed an assessment, called a "Baseline Report," for his assigned KIQ. It includes a summary of what is known and not known about it, uncertainties in knowledge and differences in interpretation, and listings of

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principal information and analytical deficiencies, despite continuing collection and research, which antedated and will postdate the life span of the KIQ. The NIO/Economics was selected in early March 1974; thus, completion of his Baseline Report has been delayed.

Proposed Action. -- In late FY 1974 the NSCIC Working Group will seek consumer appraisals of performance against the selected KIQs. Also, during the remaining portion of this fiscal year, the NIOs will accomplish baseline-like reports on their remaining KIQs. These, however, will not be subjected to the KEP. If everything goes well, in FY 1975 all the KIQs will undergo a performance test, hopefully, via an improved, widely accepted KEP. By that time, if the RAB were reconstituted as a special working group of NSCIC, the RAB would, as appropriate, work with the NSCIC Working Group to provide continuous evaluation and regeneration of the KIQs.

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Requirements Advisory Board

RAB was established by Secretary Shultz, as Chairman of the Council on Economic Policy, in February 1973. His then Special Assistant for National Security Affairs, John L. Hart, was its Executive Secretary; its membership comprised policy-level officers from Treasury, State, CIEP, CEA, STR, and Commerce plus the D/OER, who is also chairman of the EIC, and it was chaired by CEP Executive Director Kenneth Dam, who has since returned to the University of Chicago. The purpose of the Board was to formulate only those economic intelligence requirements whose needs would justify additional intelligence collection, and by "intelligence" Hart especially meant information that is, at least in part, gathered by irregular means

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Action to Date. -- During the spring of 1973 the members achieved a consensus on the two international economic problems that they did not believe were receiving adequate coverage. On 15 May 1973 the full Board and Secretariat, convening in the White House, formally approved them. The members also agreed that the process would be an ongoing one and over time they would expect to address themselves to additional requirements of similar caliber. Because RAB believed that additional collection was necessary, the requirements were forwarded to DCI Schlesinger by Dam. Later, on 29 June 1973, they were passed on to the Director of NSA for his comments. At the same time, these requirements were incorporated into the formulation of the first set of economic KIQs.

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Hart left government the following month and, since then, his successor, William Morell, has chosen to canvass the membership on an informal basis. Nonetheless, Leo Cherne, in his recent economic intelligence report, notes that "the Board's 1971 report recognized the need for an institutional mechanism capable of articulating the intelligence requirements of U.S. economic policy-making organizations...the RAB...appears organizationally well suited to satisfy this purpose."

Proposed Action. -- There is general agreement with Cherne that there is a need for a RAB-like mechanism. Even though international economic policy is increasingly inter-related with the national security, NSCIC by itself cannot and should not fill the void. Not all high-level economic objectives should be brought to the attention of it or its Working Group. Many financial, commercial, and trade matters would have little interest to them. Yet, it is equally true a complete bifurcation along the lines of the British Joint Intelligence Committee (JIC)* would have significant drawbacks. Economic matters that have national security implications might not come to the attention of the non-economic agencies who have a "need to know."

The purview of a rejuvenated RAB will no longer necessarily be limited to covert intelligence matters. Foreign Service reporting, in particular, will be scrutinized too. When the

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RAB makes a recommendation on a matter that has national security implications, its chairman will have the option of recommending that it be placed on the agenda of either the NSCIC or its Working Group. This approach not only will result in "exposure" for important economic intelligence requirements but, more importantly, will tend to provide a needed blend of security and economic inputs with respect to intelligence.

Insofar as RAB's organization is concerned, the naming of a new chairman and new executive secretary or executive director will be deferred until the summer, by which time the NIO/Economics will have been on board for a reasonable period. More importantly, the link between RAB and EIC will have to be made clear. Such determinations will entail definitions of the respective roles of the EIC Chairman, the DCI's NIO/Economics, and Treasury's Special Assistant for National Security Affairs, all of whom will have principal parts to play. In any case, the RAB charter membership will undoubtedly be augmented by ad hoc invitations to representatives of the other economic agencies and departments, e.g., Agriculture and FEO, as appropriate.

Economic Intelligence Committee

As indicated in the introduction, USIB's Economic Intelligence Committee has been the principal institutional mechanism in this field since early 1972. During this two-year period much of the basic spadework has been completed. The concerned agencies are now able to consider further measures, including those enunciated in this plan. As for the topic of this section, users' current needs, the EIC is performing and undoubtedly will continue to perform a singular role with respect to DCID 1/2 and providing guidance to the Foreign Service. Moreover, it soon will strengthen its experienced secretariat--the ICS Economic Support Officer will be designated Executive Secretary of the EIC--so that the EIC can get similarly involved with respect to NSA, and eventually, perhaps, CIA's DDO.

Director of Central Intelligence Directive No. 1/2

DCID 1/2 establishes US Foreign Intelligence Priorities in accordance with NSCID No. 1. In contradistinction to the KIJs, which apply only to matters of policy-decision interest

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during the present fiscal year, the comprehensive topic/country/priority matrices in the Attachment to DCID 1/2 are intended to provide over-all guidance for intelligence planning and resource allocation in the FY 1975-1979. Thus, the DCID is a listing of intelligence of longer term or continuing importance or interest to civilian and military users of intelligence.

Action to Date. -- That portion of DCID 1/2 concerned with economic intelligence was discussed with the EIC Chairman at the time of its annual review during the winter of 1972-1973 to assure that the interests and needs of non-USIB agencies were considered in its preparation. The EIC Subcommittee on Requirements and Coordination, through a working group composed of the members from Commerce, State, Treasury, and OER, was intimately involved in the on-going effort of the DCID 1/2 Ad Hoc Working Group (chaired by a senior officer of the DCI's Intelligence Community Staff) to update the directive.

The economic topics were completely rewritten. The revised DCID of March 1974 contains [] of them under [] sub-categories: Economic Policy and Motivation (internal and foreign economic policy, and dynamics of economic-policy formulation), Business Activities and Competition (business activities and conditions, competitive commercial threats, and activities of multinational corporations), and Economic Capabilities and Vulnerabilities (economic data and trends, economic capabilities, new technologies and products, and economic vulnerabilities). As a result, the present directive clearly reflects the continued increase in the priority of economic intelligence for national policymakers as well as making the economic topics more precise and complete. Notably, where the preceding directive had no items rated of critical importance to US political, economic, and military interests, the current directive has [] topic/country scores of "2" in the Economic category.

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Proposed Action. -- DCID 1/2 calls for an annual review of the intelligence topics and their priorities. Presumably a task force will be assembled this summer to make revisions by December 1974, with the view of publishing the next version early in 1975. Who will chair this effort is open to question. Undoubtedly, the NIOs will be actively engaged in the exercise whether or not a representative of the Deputy to the DCI for National Intelligence Officers is given the charge. As for the economic topics, the deliberations of the RAB will doubtless be reflected in the EIC inputs.

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Guidance to the Foreign Service via CERP

The Combined Economic Reporting Program (CERP) of the Executive Branch is administered and coordinated by the Foreign Economic and Commercial Reporting Division (REP) of the Bureau of Economic and Business Affairs, Department of State. It provides a vehicle through which central coordination is maintained over the economic guidance and requirements levied on Foreign Service posts by many Washington departments and agencies, most of which are not members of the intelligence community. The program encompasses schedules and ad hoc requirements, the procurement of publications on foreign economies, and voluntary reporting. According to an OMB staff report on Commercial and Economic Representation Abroad, January 1973, CERP "has always been far more sensitive to external constraints, primarily budgetary, than to any attempts to determine needs objectively...A...useful provision would be a centralized mechanism for approving specific requests in the light of the statement of needs." This mechanism is now in being: The secretariat of the Subcommittee on Requirements and Coordination of the Economic Intelligence Committee annually produces a coordinated worldwide statement of priority economic, financial, and commercial requirements of the Washington economic community and tri-annually eight sets of regional Economic Alert Lists.

The Annual Statement

Action to Date. -- On 14 March 1973 the first "Coordinated Statement of Priorities on Economic, Financial and Commercial Intelligence Requirements Worldwide of the Washington Economic Community" was sent to all diplomatic and consular posts and missions by the Department of State

25X1 [redacted]. It set forth a list of broadly applicable, general priority subjects: foreign trade negotiations (especially with the enlarged European Community, Canada, and Japan); factors affecting the competitive position of US goods and services at home and abroad; foreign developments affecting US investments abroad, and the flow of funds to and from the United States; international monetary negotiations; foreign developments affecting US access to fuels and raw materials; and, economic developments affecting US national security and influence abroad. Twenty-one different components of the Washington Economic Community coordinated this document.

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Proposed Action. -- The EIC Subcommittee will shortly issue this year's statement. In so doing, it will take into account the comments that Treasury's USIB representative provided the DCI on 23 November 1973 on the draft of Key Intelligence Questions. His comments were based in large measure on conversations with members of the Council on Economic Policy and other key economic policy officials. The Annual Statement provides an additional means for notifying the field of their concerns.

The Economic Alert Lists (EALs)

Action to Date. -- The economic sections of CIA's Current Intelligence Reporting Lists have been broken out and expanded to include contributions from all the subcommittee participants and renamed. The EALs are the vehicles through which Washington economic analysts maintain a continuing dialogue with the field reporters. The analysts identify specific short-term gaps in their information picture, make requests for amplification of topics already being reported and suggestions for emphasis, and express needs that are within the reporting responsibility of one given collector.

At the time the EAL was launched, a sister document, the Economic Reporting Guide (ERG), was founded to parallel the CIA's Intelligence Reporting Guide. Like the EAL, the ERG was published in regional editions, but only on an annual basis. Its purpose was to express Washington analysts general and long-term reporting needs, information needs of a current but continuing nature, and requests for periodic reporting. After a year of trial and, after receiving the comments from a sample of 30-odd posts, the decision was made to drop the ERG. Many of the continuing information needs were duplicative of those identified in the corresponding EAL. As for the long-term reporting needs, Volume 10 ("Economic Affairs") of the Foreign Affairs Manual (FAM) is now undergoing revision; it will be reissued in June 1974 and will incorporate the suggestions of Treasury's Office of the Assistant Secretary for International Affairs.

Continuing steps have been taken to improve the Economic Alert Lists. In response to the recommendations of a representative sample of ambassadors, the items have been reduced in number and sharpened in focus. This has been accomplished through the use of eight substantive review panels composed of specialists from CIA, State, Commerce, and

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Treasury. Currently, the regional affairs sections identify those national policy issues requiring intelligence support that dictate priority collection and reporting. For example, the Middle East/Southeast Asia EAL, March 1974, requests the posts to focus on the following areas of economic information:

- Petroleum and other energy-related matters with particular reference to policies affecting production, trade, and pricing;
- Financial and investment matters with primary emphasis on major oil-producing states;
- Arms negotiations and purchases, particularly by the belligerents in the October 1973 war;
- Food situation, including production and trade of foodgrains and fertilizers; and,
- Balance of payments, inflation, and other critical issues affecting the economic health of countries of the area, particularly with reference to abilities of the less developed countries to finance necessary imports.

Proposed Action. -- A relatively recent publication, the EAL is current, topical, selective, and specific. Yet, it is a guidance document rather than an "instruction," which requires a mandatory response from the field. Individual collectors may determine in view of their local situation the manner and extent, if at all, to which they respond to EAL items in their formal program of reporting. This subject, worthy of more discussion, quickly leads into the subject of resources; because in general, the field response is a function of its work load. So that such a discussion, which would include OMB, will be meaningful, the EIC Subcommittee this summer plans to commence an evaluation of the EAL responses. At present, CIA's Central Reference Service is coding them in its [] information retrieval system. Often, however, the post does not slug the incoming message with the acronym EAL. Hopefully, over time, they will do so.

Depending on information needs and priorities, the periodicity and area coverage of the various area EAL volumes may change from time to time. Thus, for example, in January 1974 the Far East EAL was split into two books: (a) Southeast Asia and the Pacific, and (b) China and North Asia. In due course, this flexibility will enable the NIOs to make an appropriate input.

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SECTION III.
DETERMINATION OF INTELLIGENCE COMMUNITY'S CONTRIBUTION

As noted on page 1, Objective E requires that this step be taken in coordination with other federal agencies. The implication is that not all the "economic intelligence" as we have defined it, which is required by national consumers, is to be a task for the intelligence community. In a period of budgetary retrenchment, we should, in particular, optimize the use of the Foreign Service for collection purposes. Moreover, the answers to many requirements might well lie within the public domain, or could be met by an able economic research facility. In sum the, this section is the bridge between users' needs and a determination of appropriate resource levels for the intelligence community.

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The NIO/Economics et al.

The December 1973 PFIAB report recognizes that the Foreign Service officer is basic to economic intelligence collection. In this regard, [redacted] are specifically identified in the current set of KIOS and receive critical priority ratings in DCID 1/2. [redacted]

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The Foreign Service, perforce, will have to bear the brunt of this collection effort. Yet, here and elsewhere, expert promotion and representational functions too often lead to a relatively low priority for economic reporting. In May 1973, for example, the CIEP Operations Group examined [redacted] industrial policy. It concluded, "Except in some specific cases...we are inadequately informed as to the full extent of this impact" on our trade, investment, and employment related to [redacted]

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Indeed, the bulk of recent additional "economics" slots granted State by OMB, as a follow-up to the latter's staff report (see page 19 above) have been diverted to export promotional activities. It is becoming evident, therefore, that high-level intercession may be required. In the meanwhile, this subject should be placed on an early agenda of the NSCIC Working Group, with the aim of eventually bringing it to the attention of the Deputy Secretary of State. Pari passu, reporting by the Treasury attachés should be reviewed. Perhaps they should be more responsive to the needs of national consumers vis-à-vis those of Treasury.*

The Intelligence Community Staff -- especially its Economic Support Officer -- will also play a major role in this process. In particular, as it develops objectives for community components and organizes studies and evaluations of their performance, the IC Staff will be affecting perceptions of the intelligence community's contribution. In effect, the ICS Economic Support Officer will perform as the managerial counterpart to the substantive NIO/Economics. Together, acting in complementary fashion, they will support the DCI under both this USIB and IRAC hats. A number of joint projects are already under way; viz., the KEP and two special studies, which now will be discussed.

The KIQ Evaluation Process

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The KIQ Evaluation Process (KEP) was set in motion in mid-February 1974, on a pilot run. As has been noted, of the [] KIQs selected for the initial exercise, [] relate to the oil problem. Once the Baseline Reports are completed,

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* On 26 October 1973, Ken Dam met with all the attachés who were home for a week's consultation. He told them that if the overt collection system is to be optimized the Treasury attachés are going to have to play a greater role. There is insufficient information in Washington about our "friends" to enable us to determine their economic policies. Foreign embassies in Washington typically have good contacts on the Hill. They, therefore, are in a position to report home on the progress of an important piece of legislation. Thus, as the trade bill wended its way through the legislative process during 1973 they had a deeper understanding of its prospects than if they had limited their contacts to Under Secretary of State Casey. Likewise, "our economic officials abroad, particularly the Treasury attachés, are in an advantageous position to cultivate elite, private circles..."

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they are simultaneously sent to CIA, DIA, and INR, and three USIB committees, the SIGINT and Human Sources committees, and COMIREX. These committees, in turn, will concern themselves with rectifying the information deficiencies identified in the Baseline Reports. As the process proceeds, the NIO/Economics and the program managers will in microcosm be addressing the question of what the intelligence community's contributions can and should be to meet the stated users' needs. Over time, as experience is gained, this procedure, if successful, can be employed for an ever-widening range of issues.

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COMIREX

Reconnaissance satellites often produce joint readouts, collecting military and economic information simultaneously.

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The use of photography is related to whether research is mainly at the macro- or micro-economic level, the availability of information from other sources, and the analysts' knowledge of the medium's capabilities and characteristics. Research at the aggregate level is least likely to permit direct application of photo-analysis.

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Special Studies

As is readily apparent by this time, the economic intelligence producers have many links with the policy consumers, much of the "network" having been set up only within the past several years. With the new emphasis on economic reporting, needs were soon followed by the necessity of developing collection strategies. Thus, it was natural for OER, the principal analytical shop, to take the lead. It is currently evaluating applications of overhead photography, especially with respect to crops. And two studies concerned with covert reporting are nearly completed. Their findings, which will be submitted to the IRAC Working Group, should be of value to the resource managers and should point the way for future study.

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SECTION IV.

DETERMINATION OF APPROPRIATE RESOURCE LEVELS AND ASSIGNMENT OF COLLECTION AND PRODUCTION RESPONSIBILITIES

The validation of collection and production requirements is undertaken by USIB on a continuous basis. The community program managers then assume these as responsibilities. Now that the intelligence community is seriously constrained with respect to financial resources, it more than ever has to weigh the relevant opportunity costs before it embarks on new efforts. To take on an additional job, an old one may have to be stopped. Accordingly, the appropriate resource level for each intelligence function must be determined. Conceptually, this can be done by completing programmatic and topical resource studies, so that the resource levels can be allocated among the intelligence entities.

Role of IRAC

At this time, we can start only with the first part of this objective. And "determination" is a misnomer; the proper word is "examination." As successive iterations of substantive objectives are issued and refined, we can look forward to achieving the second portion of this objective, in fiscal years 77, 78, and 79. The principal mechanism the DCI will employ to fulfill this all-encompassing task is his Intelligence Resources Advisory Committee (IRAC), which he chairs, and which includes senior representation from the departments of State and Defense, OMB, and CIA. Over time, there may well be a coming together of the USIB and IRAC functions -- substantive matters and resource matters are intertwined.

By definition, "hyphenated" economic intelligence cuts across program lines. Rational planning of economic intelligence is not possible without considering the capabilities of all the collection and research efforts of the government, intelligence and non-intelligence alike. At the present time we are faced with a constantly moving target: with respect to US economic policy, the concerns, and therefore the appropriate roles of economic intelligence, are changing very rapidly. As a result, resource planning in this field, while necessary, is very difficult. Nonetheless, much can be done. For example, some elements of economic intelligence are more predictable than others. Most predictable are the requirements

for collection and research on the USSR and China. The near certainty that these nations will remain, despite detente, basically antagonistic to the United States, and closed to foreigners, means that intelligence will have a major role in evaluating Soviet and Chinese economic capabilities and policies.

Action to Date. -- In March 1974 IRAC charged its working group to look at the total NIP, using CIRIS. To carry out this charge, the working group plans to examine the NIP by devising so-called "cross-program resource packages" [REDACTED]

[REDACTED]

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Proposed Action. -- Were IRAC to complete an assessment of the total [REDACTED] package, we would have a much clearer understanding of those resources, [REDACTED] that could be retargeted to meet the high-level needs of "hyphenated" economic intelligence users (if the priorities were awarded). In practice, however, this is probably chewing off too much at once. An examination of [REDACTED]

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[REDACTED] might be more digestible. This more limited effort could be successfully concluded in the second half of FY 75. By that time, IRAC will be in a position to draw up the terms of reference for a topical (rather than a functional) cut at the resource problem, this time, perhaps, looking at political-economic collection. It would be undertaken in FY 76, when the relationships among the NIO/Economics, EIC, and RAB will have been sorted out. And it would include all the NIP resources allocated to economic intelligence collection broadly defined plus the appropriate activities of the Foreign Service. Resources would be identified with respect to target areas, subjects, investment, operation costs, and productivity. Hopefully, such a study would, amongst others, reveal opportunities to reallocate resources as necessary to improve collection vis-à-vis specific requirements.

Supplementary Resources

"Intelligence" is only one facet of a much larger universe. Let us assume, for example, the policymakers are concerned with the impact of the transfer of technology on the US balance of payments. It is quite apparent that intelligence should not be a focal point of the exercise though

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it will have something to contribute -- the study would have a US orientation, with intelligence chipping in with appropriate foreign-country aspects. On a somewhat different tack, yet related, is Cherne's finding that economic intelligence staffs have been spurred toward maximum output, with a consequent loss of quality. For these and other valid reasons, the analytical components of the intelligence community will strive to minimize duplicating the efforts of others, both in and out of the government.

CIEP Inventory...

Starting in August 1971, INR has prepared [] issues of the Periodic Inventory of U.S. Government Studies for the CIEP Operations Group. Its main focus is on in-house, though not excluding external, research. It is a worthwhile endeavor and should not only be continued but upgraded.

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Action to Date. -- In it OER reveals its on-going economic research program. Indeed, this is the only inventory of government-wide studies to which the CIA contributes. The inventory covers studies under [] major categories ranging from natural resources to US economic relations. On more than one occasion, non-USIB agencies deferred or abandoned a proposed project once they spotted an on-going OER or INR/REC study.

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Proposed Action. -- On a low-key basis, the EIC will offer to conduct annual sessions at which the Agency Action Officers will discuss their research programs, making suggestions that should reduce duplication of effort. In effect, the EIC stands ready to operate as a clearing house for this exercise. In time, hopefully, before the intelligence community is commissioned to complete analytic studies by senior-level economic policy-makers, a judgment will be rendered whether or not studies already under way will either suffice, or satisfy part of the problem. Such judgments, inevitably, will be a function of the effort that goes into the preparation of the inventory.

...and Other External Research

INR also prepares [] related volumes for the Under Secretaries Subcommittee on Foreign Affairs Research (USC/FAR). Its aim is to further closer coordination of government research. For a number of reasons neither DOD's Advanced Research Projects Agency (ARPA) nor CIA makes inputs to the exercise.

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Action to Date. -- Recently, the IC Staff established a position for a Coordinator of External Research (who will also monitor development of new analytical methods and techniques). An example of how he serves the producers will be instructive.

This past fall PFIAB raised the problem of covering Soviet economic activities in the United States, which includes the subject of scientific and technical exchange with the USSR and the degree to which the USSR is exploiting the relationship. At the same time, a USIB member asked the question, "What impact will greatly expanded trade have on Soviet military capabilities over the long term?" It is evident that these two topics are associated. It is also evident that much work directly related to these topics is being accomplished in many quarters. Only after a check by the ICS Coordinator was it determined that ARPA has a sizable contractor effort dealing with the impact on the DoD of exchanging technology with the Soviet Union (and China): four think-tanks are working on pieces of these problems -- Rand, Battelle Memorial Institute, Stanford Research Institute, and Hudson. Moreover, he learned, the National Science Foundation is funding work with academia in the field of technological innovation, some of which is germane to the subject.

Proposed Action. -- The NIO/Economics and the Coordinator, working together, will provide guidance to contract managers, e.g., ARPA, so that the contractors' work will meet the needs of a wider government audience. At the same time, they will alert the analytical community, via the EIC, to the external research activities under way that, in due course, might well be of use to them. Correspondingly, the EIC will consider reviewing the FAR volumes to determine whether its clearing-house operation for in-house government research would benefit from a participatory role in the external research world.

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APPENDIX: A LOOK AHEAD -- UNRESOLVED PROBLEMS

In his Report on Economic Intelligence, Mr. Cherne early on states, "despite this heightened awareness of the important role of economic intelligence...there still remains a significant gap between that which is needed and that which is provided." In particular, he subsequently notes, "the fundamental intelligence need is for an analysis of the dynamic consequences, for a sophisticated knowledge of options, and for better knowledge of intentions, so that the political and economic capabilities being altered can be seen with greater clarity."

As has been indicated in the prior sections of this plan, many of the elements found deficient in Cherne's report are now being, or soon will be, addressed. There remains, however, not surprisingly, more to be done. Therefore, the purpose of this appendix is to identify a range of issues that will have to be dealt with, hopefully sooner rather than later. Agreed that this may not be a propitious time for major reform; nonetheless, the intelligence community can probably accomplish a number of things on its own.

In re Collectors and Targets

At this juncture, the primary area deserving of early attention is that concerned with collection. From a resource point of view, this is where the large monies are spent. And, from the vantage point of the analysts, this is the function that can reduce their informational deficiencies: for in the end, the analytical output is only as good as the informational input.

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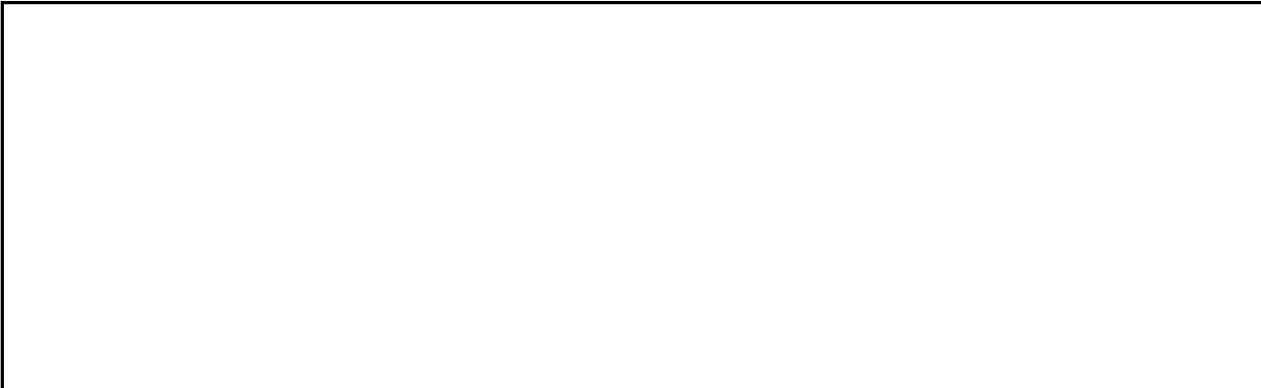
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Department of State/Foreign Service

Mr. Cherne's report cites last year's OMB study on Commercial and Economic Representation Abroad. Insofar as the recommendations are concerned, implementing actions thus far have had little impact on the support the Foreign Service has supplied the Washington economic community. In particular, the bulk of additional slots awarded the Department in FY 74 for economic/commercial efforts has been allotted not to the provision of additional economic reporting officers but to the export promotion program. It can be stated as a general rule that those who engage in export promotion do not provide Washington end-users with useful economic reports and analyses.

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Elsewhere, the general impression remains that State's reporting is not meeting our needs as well as before the budgetary cuts (BALPA and OPRED) of the late sixties. In sum, reporting should be more timely and more analytic.

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Treasury

The Office of the Assistant Secretary for International Affairs (OASIA) has senior officers stationed in 12 posts abroad, including Tokyo, London, Bonn, Paris, the US Mission to OECD (Paris), and Rome. Their duties involve financial reporting, maintaining contacts with central bank officials and private banking authorities, and carrying out negotiations in which Treasury has a direct interest. In the less developed world, Treasury has officers in New Delhi, Saigon, Manila (Asian Development Bank), Mexico City, and Brasilia. Like the attachés in developed countries, their principal duties include providing on-the-spot assessments of the macro-economic policies and performance of the host country with specific reference to the impact of these policies on US economic and financial objectives.

In effect, these specialists are associated with the Foreign Service. The bulk of their reports are included in the cables and airgrams that come through State channels from these posts. But too often, either a lot of important information that they have access to is not being reported from abroad or, when it is, it is not being disseminated outside Treasury. Understandably, the attachés fear that, if the embassies had access to all their reporting, they would be watered down before transmission; that is, they would be homogenized to reflect State Department views. Information that could be reported includes that based on attaché contacts with foreign banks and multinational corporations. Additionally, the attaché, and his economic section colleagues, could attempt to obtain the views of American banks as well as law and accounting firms. Chemical Bank in New York, for example, receives "internal use" cables from its Tokyo office containing detailed analyses of the outlook for the yen.

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In re Analysts

Again turning to Mr. Cherne, he notes the current forces are tending to spur economic intelligence analysts toward maximum output. "As a consequence, quality suffers." To the extent that this occurs, it is most likely owing to a lack of an effective rationing system for tasks assigned to production offices. Too often, in-depth analyses are interrupted by crash production demands. Accordingly, steps that can be accomplished that would reduce the burden on the analyst should be explored. The resolution of minor irritants can have a salutary effect as well. For instance, both INR and CIA analysts make inputs to data books and fact sheets, much of the time duplicating each other's efforts; a division of labor is in order.

Economic intelligence analysts should strive to produce more forward-looking estimates. These would highlight what is being told the policymaker that is new and would add to

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his existing body of understanding, which includes a continuing exposure to the same topics in the open media. They would also indicate why analysts draw their stated conclusions, and typically would include an explanation of their hypotheses.

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Over time, other agencies will be called on to play a more important part in the over-all analytic effort. Currently, international finance is not a strong suit of

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the intelligence community economic analysts. Improved relations with the FRB's Division of International Finance should pay dividends. The December 1971 PFIAB report on economic intelligence recommended that the Department of Commerce should consider the establishment of a specific intelligence office. For a period, Commerce did employ a deputy assistant secretary who acted as the focal point of intelligence support for the department. Since his departure, unfortunately, Commerce has lapsed back to the status quo ante: as a result, no longer are sensitive intelligence reports disseminated to it. Also AEC, though a member of the intelligence community, only seldom participates in inter-agency discussions of an analytic nature. As we face years of energy problems, it is incumbent on all concerned to bring the appropriate personnel from the AEC (or its successor agency) into the analytic family.

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In re Policy Support

This topic, of course, is related to both of the previous. For example, OER's relative weakness with respect to international finance is probably a function of being separated from the policymaking arena. Under Secretary of Treasury Volcker, as did his predecessor, runs the whole show: he has the information, assigns the analytic tasks to his small group, and makes the policy. Steps now should be undertaken to prepare for his impending departure from government. Possibly, the NIO/Economics should have observer status in the entity that succeeds the so-called Volcker Group.

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Energy supply, as are the topics of food production, trade, investment, is world-wide in nature. Yet, intelligence analysts are at times hampered -- perhaps unnecessarily so -- by a relative lack of attention to the United States itself. Community analysts probably do not follow the US economy as diligently as they could; neither do offices of the State Department, OASIA, the FRB's Division of International Finance, and so on. And where departments such as Commerce and Treasury have domestically-oriented entities, their domestic and international economists rarely touch bases with each other. It may be time, then, to face up to the outmoded neglect of the United States by intelligence analysts.

No system of analysis exists that enables us to determine the future of economic behavior. Nevertheless, analysts need to provide policymakers with as much early warning as possible. In support of this objective, the intelligence community should alert policymakers' staffs to emerging issues. Often they wield great influence, affecting the perceptions of their superiors. These issues would include important trends and developments that are receiving less than adequate attention, e.g., those that relate to population growth and the economic consequences of spreading pollution.

Policymakers, too, have to provide feedback to the analysts. As noted above, some of the Treasury attachés' observations are given no distribution outside Treasury. At the same time, Treasury and its attachés regularly converse on the telephone, though not always via secure lines. Ironically, transmission of such information may be picked up by the host government [redacted]

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[redacted] but not by intelligence community analysts. (In passing, the use of secure phones by senior policymakers is a subject worthy of separate examination.)

Last, but most important, it is essential that the policymakers be involved in the determination of "current needs." Yet arranging that they do participate by means of new or altered institutional mechanisms is the easier part of the exercise. More difficult is the setting of priorities and the balancing of risks, which, in turn, both affect and are affected by answers to who? when? how?

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4 November 1974

Dr. Charles C. Wolf, Jr., Director,
Economic Department
The RAND Corporation
Santa Monica, California 90406

Dear Charles:

Maurice has already thanked you, but let me also extend my appreciation for your hospitality during our two-day visit to RAND last month.

Per your request, I am enclosing a study prepared by the Office of Political Research that deals with the interrelations of world population, food production, and climatic changes. OPR is a new entity that is attempting to employ interdisciplinary skills in the analysis of longer-range problems. As noted, the findings in this paper do not necessarily reflect a consensus of views among knowledgeable CIA analysts. Nonetheless, because the implications are so provocative this paper received wide dissemination throughout the Government.

Cordially,

Intelligence Community Staff

Enc. (1)

"Potential Implications of Trends in
World Population, Food Production, and
Climate"

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